Corporate Governance Report

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https://www.ngkntk.co.jp/english/index.html

The corporate governance of NGK SPARK PLUG CO., LTD.(the "Company") is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

We believe that creating and maintaining fair and efficient management systems while ensuring the soundness and transparency of management in order to gain the trust of all stakeholders and raise corporate value by fulfilling our corporate social responsibilities is one of the Company's most important management issues. We are fully cognizant that the timely and appropriate provision of company information to investors is the foundation of a sound securities market, and we strive to enhance information management and internal control functions by taking measures such as defining the disclosure periods and persons responsible for disclosure in our Internal Information Management Rules so that we can make prompt, accurate, and fair disclosures.
Furthermore, we ensure that all officers and all employees understand the commitment, management policy, and action guideline that constitute our Corporate Philosophy and disseminate information on that Corporate Philosophy to officers and employees. We adopted a Corporate Code of Conduct as a fundamental policy for properly carrying out the Corporate Philosophy and take measures to raise awareness regarding compliance.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code] **Updated**

The Company complies with all of the principles set forth in the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code] **Updated**

Principle 1-4: Cross-Shareholdings
1. Policy on Cross-Shareholdings
The Company holds shares that it has determined will lead to enhancement of the Company's corporate value after verifying the medium- to long-term economic rationality based on maintaining and strengthening business relationships with the Company as a fundamental principle. The Board of Directors verifies the effects of these holdings from the perspectives of their rationality and enhancement of corporate value based on medium- to long-term risks and returns, and in cases where a determination is made that continued holding of a particular stock is not suitable, that stock is sold while appropriately monitoring market trends.

2. Standards on the Exercise of Voting Rights
In principle, the Company exercises its voting rights with regard to all cross-holdings of shares. When exercising its rights, the Company makes appropriate determinations on whether to vote for or against each resolution from the perspective of raising the corporate value of the issuing company, and in cases where shareholder values will decrease significantly, the Company will cast opposing votes and exercise voting rights in a manner that will strengthen relationships with trading partners.

Principle 1-7: Procedures and Frameworks Regarding Transactions with Interested Parties
To ensure that the common interests of the Company and its shareholders are not damaged by transactions with interested parties, such transactions require the approval of the Board of Directors under laws and regulations as well as internal rules and the results of such transactions must be reported to the Board of Directors.

Principle 3-1: Full Disclosure
1.Company Objectives(e.g. Business Principles), Business Strategies, and Business Plans
The Company's Corporate Philosophy and medium-term management plans are posted on the Company websites specified below and are explained through financial results briefings, investor relations activities, and other means.

Corporate Philosophy
https://www.ngkntk.co.jp/english/corporate/philosophy/corporate_philosophy.html
Medium-Term Management Plan
https://www.ngkntk.co.jp/english/ir/management/pdf/medium-term_management_plan_e.pdf

2. Basic Views and Guidelines on Corporate Governance Based on Each of the Principles of the Code
The Company's basic policy regarding corporate governance is set forth in this report under "1. Basic Views" in "Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information."

3. Board Policies and Procedures for Determining the Remuneration of the Senior Management and Directors
Director and corporate officer remuneration is determined by the Board of Directors based on discussions regarding the responsibilities and performances of each director and corporate officer by the Remuneration Committee, which was established in April 2017 as an advisory body to the Board of Directors and whose membership includes outside directors. Also, in order to raise directors' awareness of the contribution to the enhancement of the Company's performance and the improvement of corporate value over the medium to long term, existing remuneration systems were reviewed, the percentage of performance-linked remuneration was increased, and a new stock-based remuneration program, funded with a portion of base remuneration that was previously paid in cash, was introduced in June 2017 pursuant to a resolution of the General Meeting of Shareholders.

4. Board Policies and Procedures in the appointment of the senior management and the nomination of Directors and Audit & Supervisory Board members candidates
A Nomination Committee, whose membership includes outside directors, was established in April 2017 as an advisory body to the Board of Directors. When director candidates are nominated in the future, to ensure reasonableness and transparency, the Board of Directors shall make a determination following deliberations by the Nomination Committee for submission to the General Meeting of Shareholders.
Decisions regarding candidate nominations for Audit & Supervisory Board members shall be made by the Board of Directors with the consent of the Audit & Supervisory Board, following deliberations by representative directors for submission to the General Meeting of Shareholders.

5. Explanations with respect to the individual appointments and nominations based on 4
Information regarding the personal histories, positions, assignments, and concurrent positions of each candidate director and Audit & Supervisory Board member is provided in notice of convocation of shareholders meeting. In the case of candidate outside directors and candidate outside Audit & Supervisory Board members, in addition to personal histories, positions, assignments, and concurrent positions, the reasons for selecting each candidate and information regarding their independence are provided in notice of convocation of shareholders meeting.

Supplementary Principle 4-1-1: Summary of the Scope of Delegation to Management
In addition to those matters specified by laws and regulations and the Company's Articles of Incorporation, the Company's Board of Directors makes decisions on those matters specified as resolution matters in the Board of Directors Rules. Decisions regarding other matters of business execution are delegated to management on the president, Corporate Officer, and lower levels, and the details of such delegation are clearly set forth in basic policies, decision-making rules, and other internal rules.

Principle 4-8: Effective Use of Independent Outside Directors
Three of the ten Company directors are independent outside directors. The objectives of appointing multiple, independent outside directors are to introduce outside perspectives with diverse, specialized knowledge and experience to the Board of Directors, reinforce supervisory functions, and enhance corporate governance systems even further.

Principle 4-9: Independence Standards and Qualification for Independent Outside Directors
In addition to the qualifications of outside directors and outside Audit & Supervisory Board members specified in the Companies Act and the criteria on the independence of independent officers specified by financial instrument exchanges, the Company adopted its own Criteria for Election of Independent Officers and elects only persons who meet all of those criteria as Independent Outside Directors.
The Criteria for Election of Independent Officers is set forth in this report "Matters relating to Independent Directors/Audit Supervisory Board members" under "1. Organizational Composition and Operation
[Independent Directors/Audit & Supervisory Board members]" in "Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management".

Supplementary Principle 4-11-1: Views on Balance and Diversity of Knowledge, Experience, and Skills within and Size of the Board of Directors as a Whole
The Company's Board of Directors believes that it is important for the Board to comprise diverse human resources with different specialized knowledge, experience, and backgrounds.
In addition, multiple outside directors (currently three (3)) are elected to the Board of Directors, which serves to incorporate outside perspectives that are independent from management and reinforce supervisory functions. Emphasis is also placed on ensuring transparency.

Supplementary Principal 4-11-2: Concurrent Assignments of Directors and Audit & Supervisory Board Members
Information regarding the status of concurrent assignments of outside directors and outside Audit & Supervisory Board members is set forth in this report under "1.Organizational Composition and Operation:
[Directors] and [Audit & Supervisory Board members]" in "Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management".
Information regarding the status of concurrent assignments of directors and Audit & Supervisory Board members other than outside directors and outside Audit & Supervisory Board members is also provided in notice of convocation of shareholders meeting.

Supplementary Principle 4-11-3: Summary of Results of Analysis and Evaluation of the Effectiveness of the Board of Directors
The Company had directors and Audit & Supervisory Board members complete a questionnaire with evaluation items regarding the status of the structure and operation of the Board of Directors, deliberations on management strategies and so on, supervision of business execution, and other topics. The Board of Directors evaluated the effectiveness based on this self-evaluation and other factors, and confirmed that in the fiscal year 2016, the Board adequately incorporated outside perspectives, open and constructive debate took place, adequate time for discussion was provided, and supervising functions were properly implemented, and therefore, the Company's Board of Directors was sufficiently effective.
Reviewing matters submitted to the Board of Directors were identified as an item for enhancing the effectiveness of the Board even further, and the Board will continue to make improvements in order to maintain and enhance its effectiveness.

Supplementary Principle 4-14-2: Policy on Training Directors and Audit & Supervisory Board Members
The Company appropriately provides necessary support to directors and Audit & Supervisory Board members so that they can properly perform their expected roles and duties.
Directors strive to acquire the knowledge necessary for them to perform their work duties by attending outside seminars and other means, and officer training attended by all directors and all Audit & Supervisory Board members is held, and efforts are made to share information on and resolve management issues. Outside directors receive briefings on details of business and operations from each division and visit key offices to deepen their understanding of the Company, its Subsidiary or Affiliate Companies (hereinafter referred to as "the Group").
Audit & Supervisory Board members attend outside seminars as appropriate to increase their understanding as Audit & Supervisory Board members and gain knowledge on audit procedures, relevant laws and regulations, and financial accounting necessary for accounting audits. Audit & Supervisory Board members are also provided with opportunities to deepen their understanding of the Company through site visits of plants and subsidiaries and plant tours.

Principle 5-1: Policy for Constructive Dialogue with Shareholders
The Company takes advantage of general shareholders meetings and various other opportunities to engage in constructive dialogue with shareholders in order to contribute to continuous growth and enhancement of corporate value over the medium- to long-term. Through such dialogues, the Company seeks to pay appropriate attention to the views of shareholders, clearly explain management policies to shareholders, and gain their understanding. The specific policy is as set forth below.
1.The president oversees dialogues with shareholders in general and strives to conduct constructive dialogue with shareholders.
2.The directors responsible for the Corporate Strategy Group and Corporate Administration Group oversee collaboration with the Accounting & Finance Department, General Administration Department, Corporate Legal Department, and Public Relations Department and work with other related organizations such as the Corporate Planning Department and business departments to support dialogue by management with shareholders.
3.In addition to individual discussions with shareholders and institutional investors, briefings for investors and analysts and conference calls are conducted. The Company also actively participates in briefings for individual investors held by securities companies and others and works to enhance means of engaging in dialogue with shareholders and investors.
4.Information and documents relating to investor briefings and so on are posted on the Company's website and information is disclosed.
5.The details of dialogue with shareholders are reported to all directors, and the opinions and concerns of shareholders ascertained through such dialogue are considered and appropriate responses are investigated or such opinions and concerns are reflected in business operations.
6.With regard to the management of insider information during such dialogues, the Company's relevant internal rules are followed and compliance is maintained by obtaining verification regarding information disclosures from outside attorneys.

2. Capital Structure

Foreign Shareholding Ratio	More than 30%

[Status of Major Shareholders] Updated

Name / Company Name	Number of Shares Owned	Percentage (%)
The Dai-ichi Life Insurance Company, Limited	16,752,850	7.49
The Master Trust Bank of Japan ,Ltd. (Trust Account)	13,938,700	6.23
Meiji Yasuda Life Insurance Company	13,794,569	6.17
Japan Trustee Services Bank ,Ltd. (Trust Account)	11,516,400	5.15
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,541,168	2.92
STATE STREET BANK AND TRUST COMPANY	12,578,828	5.62
National Mutual Insurance Federation of Agricultural Cooperatives	6,138,000	2.74
The Master Trust Bank of Japan, Ltd. (Toyota Motor Account)	3,929,075	1.75
STATE STREET BANK AND TRUST COMPANY 505223	3,710,551	1.65
Japan Trustee Services Bank ,Ltd. (Trust Account 9)	3,633,700	1.62

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation **Updated**

The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its three corporate joint holders submitted a copy of the report on large stockholdings (revised report) on November 21, 2016, and a report was received that the bank and its three corporate joint holders held 22,155,000 of the Company's shares (9.91%) as of November 14, 2016, and a report was received that of that amount, Mitsubishi UFJ Trust and Banking Corporation holds 14,398,000 shares (6.44%). However, the Company was unable to confirm the actual holdings as of the end of the relevant fiscal year, and consequently the status of this major shareholder is not included.

3. Corporate Attributes

Listed Stock Market and Market Section	The first section of the Tokyo Stock Exchange The first section of the Nagoya Stock Exchange
Fiscal Year-End	March
Type of Business	Glass & Ceramics Products
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

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II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with an Audit & Supervisory Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	13
Term of Office Stipulated in Articles of Incorporation	One year
Chairperson of the Board	Chairman, President & CEO
Number of Directors	10
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1) **Updated**

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Morihiko Otaki	From Other								△			
Kanemaru Yasui	CPA								△			
Megumi Tamagawa	From Other											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*Audit & Supervisory Board Member*

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/*Audit & Supervisory Board Members* are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2) **Updated**

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Morihiko Otaki	○	Vice Chairman, Pasona Inc. Mr. Otaki served as Vice Chairman of the Board of Pasona Inc., but retired as a board member for that company in August 2016. The business relationship between Pasona and the Company includes transactions relating to personnel placement services, but the Company's business with Pasona accounts for an extremely small percentage of Pasona sales (less than 0.1%), and consequently, independence is adequately insured.	With his extensive experience with global companies and his keen insight as a business operator, Mr. Otaki has been a valuable asset in his advice to the Company's management team and supervision of the team's work. We have appointed Mr. Otaki as an outside director based on the judgment that he will continue to contribute to the maintenance and reinforcement of the Company's corporate governance, as he has been playing a key role in strengthening the Company's corporate governance by actively speaking out at the Company's Board of Directors' Meetings in order to enhance transparency in decision-making. In addition, as the criteria for determining independence prescribed by the securities exchange is not being violated, and the Criteria for Election of Independent Officers prescribed by the Company is satisfied, it has been determined that he is able to perform his role of protecting the interests of regular shareholders, and he has been notified as an Independent Officer accordingly.
Kanemaru Yasui	○	Outside Director, NICHIHA Corporation Mr. Yasui has an employment background with KPMG AZSA LLC, the Company's auditing firm, and from April 1993 to March 2005 was involved in accounting audits of the Company. However, over eleven (11) years have passed following his involvement in auditing the Company, and it has been four	With his expert knowledge and experience accumulated over many years as a certified public accountant, Mr. Yasui has been a valuable asset in his advice to the Company's management team and supervision of the team's work. We have appointed Mr. Yasui as an outside director based on the judgment that he will continue to contribute to the maintenance and reinforcement of the Company's corporate governance, as he has been playing a key role in strengthening the Company's corporate governance by actively speaking out at the Company's

		(4) years since his retirement from the aforementioned auditing firm. Moreover, that auditing firm conducts accounting audits of the Company from an independent standpoint, as stipulated by law; furthermore, payments by the Company to the auditing firm account for an extremely small percentage of the total remuneration of the auditing firm (less than 0.1%). In addition, at present there is no business relationship between the Company and Yasui Certified Public Accountant Office, where Mr. Yasui currently serves as Director. As such, the independence of Mr. Yasui has been sufficiently assured.	Board of Directors' Meetings in order to enhance transparency in decision-making. In addition, as the criteria for determining independence prescribed by the securities exchange is not being violated, and the Criteria for Election of Independent Officers prescribed by the Company is satisfied, it has been determined that he is able to perform his role of protecting the interests of regular shareholders, and he has been notified as an Independent Officer accordingly.
Megumi Tamagawa	○	Director, MARUYAHONSHA Co., Ltd.	With her abundant experience and keen insight as a corporate manager in a different industry from the Company as well as her expert knowledge accumulated as a certified public accountant, Ms. Tamagawa has been a valuable asset in her advice to the Company's management team and supervision of the team's work. We have appointed Ms.Tamagawa as an outside director based on the judgment that she will continue to contribute to the maintenance and reinforcement of the Company's corporate governance, as she has been playing a key role in strengthening the Company's corporate governance by actively speaking out at the Company's Board of Directors' Meetings in order to enhance transparency in decision-making. In addition, as the criteria for determining independence prescribed by the securities exchange is not being violated, and the Criteria for Election of Independent Officers prescribed by the Company is satisfied, it has been determined that she is able to perform her role of protecting the interests of regular shareholders, and she has been notified as an Independent Officer accordingly.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition and Attributes of Chairperson Updated

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination Committee	Remuneration Committee
All Committee Members	7	6
Full-time Members	0	0
Inside Directors	3	3
Outside Directors	3	3
Outside Experts	0	0
Other	1	0
Chairperson	Inside Director	Inside Director

Supplementary Explanation Updated

To ensure reasonableness and transparency with regard to director nomination and determination of remuneration, a Nomination Committee and a Remuneration Committee were established as advisory bodies to the Board of Directors.

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board Members Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Members	4

Cooperation among Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Departments

The Company strives to enhance the effectiveness of audits through exchanges of information on audit policies, audit plans, the status of audit implementation, revisions to accounting systems, and so on and close collaboration between accounting auditors and Audit & Supervisory Board members by having Audit & Supervisory Board members attend audits conducted by accounting auditors and holding periodic and ad hoc meetings by Audit & Supervisory Board members, accounting auditors, and members of the Internal Auditing Office.
Audit & Supervisory Board members and members of the Internal Auditing Office hold periodic and ad hoc meetings to exchange information on audit policies, audit plans, and the status of audit implementation and closely collaborate with one another.
When necessary, Audit & Supervisory Board members attend audits conducted by the Internal Auditing Office and the Internal Auditing Office conducts investigations, makes reports, and so on in accordance with requests from the Audit & Supervisory Board. Both organizations strive to enhance the quality of audits.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	2
Number of Independent Audit & Supervisory Board Members	2

Outside Audit& Supervisory Board member's Relationship with the Company (1) updated

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Kennichi Masuda	From Other										△			
Fumiko Nagatomi	Lawyer													

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. *Audit & Supervisory Board Member* of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an *Audit & Supervisory Board Members*
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the *Audit & Supervisory Board Member* himself/herself only)
k. Executive of a company, between which and the Company outside directors/*Audit & Supervisory Board Member* are mutually appointed (the *Audit & Supervisory Board Members* himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the *Audit & Supervisory Board Member* himself/herself only)
m. Others

Outside Audit & Supervisory Board member's Relationship with the Company (2) **Updated**

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Kenichi Masuda	○	Mr. Masuda served as Director of The Bank of Tokyo-Mitsubishi, Ltd. (currently, The Bank of Tokyo-Mitsubishi UFJ, Ltd.), a business partner of the Company, and Kokusai Securities Co., Ltd. (currently, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.). However, he retired as Director of The Bank of Tokyo-Mitsubishi, Ltd. in 2001 and as Director of Kokusai Securities Co., Ltd. in 2005, and has not been involved in business execution since his retirement. As such, the independence of Mr. Masuda has been sufficiently assured.	Mr. Masuda has held positions as director at financial institutions and is equipped with extensive knowledge on finance as well as abundant experience and broad insight as a corporate manager. While appropriately executing the duties of outside Audit & Supervisory Board member, Mr. Masuda has been playing a significant role in strengthening the Company's corporate governance by providing adequate suggestions on overall business management as required. As such, We have appointed Mr. Masuda as an outside Audit & Supervisory Board member. In addition, as the criteria for determining independence prescribed by the securities exchange is not being violated, and the Criteria for Election of Independent Officers prescribed by the Company is satisfied, it has been determined that he is able to perform his role of protecting the interests of regular shareholders, and he has been notified as an Independent Officer accordingly.
Fumiko Nagatomi	○	Outside Audit&Supervisory Board Member, UCS CO., LTD. Outside Audit&Supervisory Board Member, CHUBU Electric Power Co.Inc.	With her expert knowledge and experience accumulated over many years as a lawyer, the Company believes that Ms. Nagatomi can perform appropriate audits of the Company's overall management as an Outside Audit & Supervisory Board Member and selected her as an Outside Audit & Supervisory Board Member. In addition, as the criteria for determining independence prescribed by the securities exchange is not being violated, and the Criteria for Election of Independent Officers prescribed by the Company is satisfied it has been determined that she is able to perform her role of protecting the interests of regular shareholders, and she has been notified as an Independent Officer accordingly.

[Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members	5

Matters relating to Independent Directors/Audit & Supervisory Board Members

In addition to the qualifications of outside directors and outside Audit & Supervisory members specified in the Companies Act and the criteria on the independence of independent officers specified by financial instrument exchanges, the Company adopted its own Criteria for Election of Independent Officers* set forth below and elects only persons who meet all of those criteria as Independent Officers.

1. Persons who in the preceding three (3) years have not served as a director, Audit & Supervisory member, executive, manager, or other employee (including Corporate Officers but excluding outside directors and outside Audit & Supervisory members; referred to as "Directors etc.") of a trading partner with which transactions accounted for 2% or more of the Group consolidated net sales or the trading partner's consolidated net sales in any of the preceding three (3) years.

2. Persons who are not currently principal shareholders of the Group or Directors etc. of a company that is a principal shareholder of the Group (a principal shareholder holds 10% or more of voting rights).

3. Persons who have not been employed by a principal lender of the Group in the preceding three (3) years (a principal lender is a financial institution or other financial creditor that is essential for the procurement of capital by the Group and on which the Group relies to a degree that it is irreplaceable).

4. Persons who are not attorneys, certified public accountants, consultants, or providers of other professional services who currently receive compensation from the Group.

5. Persons who have not received donations of ¥10 million or more from the Group in any of the preceding three (3) years.**

6. Persons who are not directors of companies to which Directors etc. have been seconded by the Group or subsidiaries of such companies.

7. Persons who are not relatives within two (2) degrees of consanguinity of a current or former Director etc. of the Group.

8. Persons who are not likely to give rise to substantive conflicts of interest with the Group on a regular basis.

Notes
*However, in cases where there are grounds for a clear explanation of independence that can be provided to third parties against a backdrop of corporate merger or other unintended circumstances, even in the cases specified above, approval may be given after giving consideration to the opinions of Independent Officers.

**However, even in cases where a donation of ¥10 million or more is made, if the donation was made to a different professor in the same research lab or a different research lab at the same university with which the candidate Independent Officer is affiliated and there are grounds for a clear explanation of the lack of impact resulting from such donation on the independence of determinations by the candidate Independent Officer that can be made to third parties, approval may be given after giving consideration to the opinions of Independent Officers.

[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration

Supplementary Explanation Updated

Officer remuneration includes performance-linked remuneration as a portion of the remuneration paid to directors. In addition, a performance-linked, stock-based remuneration program that grants Company shares to directors, other than non-residents of Japan and outside directors according to rank, the degree of achievement for performance targets set forth in medium-term management plans, and so on, was introduced.

Recipients of Stock Options	-

Supplementary Explanation

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[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure

Supplementary Explanation **Updated**

Officer remuneration, etc., for the 117th period (from April 1, 2016 to March 31, 2017) was as indicated below.

Total director remuneration: ¥593 million (including ¥36 million paid to outside directors)
Total Audit & Supervisory Board member remuneration: ¥76 million (including ¥26 million paid to outside Audit & Supervisory Board members)

*Total remuneration paid to persons receiving total remuneration of ¥100 million or more:
¥137 million paid to President & CEO, Shinichi Odo

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods Updated

The policy is set forth in 3. Board Policies and Procedures for Determining the Remuneration of the Senior Management and Directors under Principle 3-1: Full Disclosure in the report entitled Disclosure Based on the Principles of the Corporate Governance Code.

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

(Outside Directors)
With regard to outside directors, the Secretary's Office is responsible for providing support for communication and coordination, etc., with the Company. In addition, when a Board of Directors meeting is held, the directors and executives responsible for the divisions distribute materials to outside directors in advance, and in addition, provide prior explanations on the items on the agenda for the Board of Directors' meeting.

(Outside Audit & Supervisory Board members)
With regard to outside Audit & Supervisory Board members, in accordance with a request from the Audit & Supervisory Board members, one full-time staff member is appointed in order to support the operations of the board, and said staff member is responsible for providing support for communication and coordination, etc., with the Company.
Directors and executives responsible for divisions make important decision-related documents available to outside Audit & Supervisory Board members as necessary and appropriately report on the status of business and assets as well as matters requested by outside Audit & Supervisory Board members. Furthermore, Directors and executives responsible for divisions adopt resolutions to disclose important matters at Board of Directors meetings and other committee meetings that outside Audit & Supervisory Board members attend and explain the status of operations of those committees as necessary.

2.Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) Updated

1. Execution of Business
With regard to execution of business, Corporate Officers elected by resolution of the Board of Directors are responsible for the execution of the Company’s business operations, and they work to clarify targets and raise business efficiency by adopting medium-term management plans and operating a budget system.
The Board of Directors holds regular monthly meetings as well as ad hoc meetings as necessary. In addition, directors engage in active deliberations at meetings of the Corporate Management Committee, Corporate Officers’ Meeting (held monthly), and other committee meetings that they attend and create systems that enable them to ascertain conditions in a prompt manner and respond to changes in the business environment.
With regard to audits, the Audit & Supervisory Board comprises four members, two of which are outside members. Timely and appropriate opinions are expressed from outside perspectives.
No outside Audit & Supervisory Board members have interests such as engaging in transactions with the company and/or belong to any organizations that have such interests.
The Company has entered into an audit agreement with KPMG AZSA LLC to perform accounting audits, and the Company’s accounts are properly audited in accordance with generally accepted accounting standards.

2. Status of Measures to Reinforce the Functions of Audit & Supervisory Board Members
In accordance with a request from the Audit & Supervisory Board members, one staff member was appointed to support the operations of the board. In addition, as discussed above, members of the Internal Auditing Office conduct investigations and make reports in response to requests from the Audit & Supervisory Board members, and both organizations strive to enhance the quality of audits.
Of the four Audit & Supervisory Board members, standing member Mr. Yasuhiko Hotta and outside member Mr. Kenichi Masuda have extensive knowledge of finance and accounting from their career.

3. Reasons for Adoption of Current Corporate Governance System Updated

The Company's slogan is "With established trust and confidence inside and outside the company, we aim to contribute to the peoples of the world by creating and putting at their disposal new value for the future." Based on their understanding of the Company with this slogan, directors strive to carry out corporate governance while acting as checks on each other. The four members of the Audit & Supervisory Board including the two outside members also perform this role and seek to adequately perform governance functions for the Company by providing timely and appropriate opinions and indications.
Three of the ten Company directors are independent outside directors. The objectives of appointing multiple, independent outside directors are to introduce outside perspectives with diverse, specialized knowledge and experience to the Board of Directors, reinforce supervisory functions, and enhance corporate governance systems even further.
In addition, the Company, at the Ordinary General Meeting of Shareholders held in June 2016, added one additional outside director, resulting in three of the ten directors being outside directors. This increase in outside directors is aimed at strengthening the supervisory function by incorporating more external perspectives with various expertise and experience at the Board of Directors, and in addition, further enhancing the corporate governance system.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

Updated

	Supplementary Explanations
Early Notification of General Shareholder Meeting	With regard to the Ordinary General Meeting of Shareholders held in June 2017, the Notice of Convocation of Ordinary General Meeting of Shareholders was issued one week prior to the statutory deadline, and in addition, was posted on the TSE website and the Company's website four business days prior to said issuance date.
Allowing Electronic Exercise of Voting Rights	Electronic exercise of voting rights was made possible as of the ordinary general meeting of shareholders held in June 2014.
Participation in Electronic Voting Platform	Starting with the Ordinary General Meeting of Shareholders held in June 2016, an electronic voting platform is being used.
Providing Convocation Notice in English	Summaries of notices of convocation and reference documents are translated into English and posted on the Tokyo Stock Exchange website and the Company's website.
Other	To make notices of convocation easy to read, they are printed in a large typeface and a universal design font is used.

2. IR Activities Updated

	Supplementary Explanations
Regular Investor Briefings for Individual Investors	A total of 12 briefings in various regions of the country were held from April 1, 2016 to March 31, 2017.
Regular Investor Briefings for Analysts and Institutional Investors	Briefings for analysts and institutional investors are conducted twice annually (following the second-quarter and fourth-quarter financial settlements).
Regular Investor Briefings for Overseas Investors	Overseas investors are visited and briefings are conducted each year.
Posting of IR Materials on Website	The Company posts financial information, financial reports, news releases, information on the corporate philosophy, and other information regarding the status of Company undertakings on the following website. https://www.ngkntk.co.jp/english/index.html
Other	The Public Relations Department, Corporate Strategy Group, serves as the contact for investor relations.

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The Company's position is set forth in the Corporate Code of Conduct.
Implementation of Environmental Activities, CSR Activities etc.	The Company issued a report titled "Environmental and Social Report" in 2000 to report on the Company's environmental initiatives as well as its corporate social programs. Since then, the Company has issued the report (titled CSR Report from 2011) annually to provide information on these initiatives and programs.

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development **Updated**

To realize the corporate philosophy under the slogan of "With established trust and confidence inside and outside the company, we aim to contribute to the peoples of the world by creating and putting at their disposal new values for the future," we have established a basic policy for the system to ensure the appropriateness of business operations of the corporate group consisting of the Company and its subsidiaries, as detailed below:

1. System to ensure that the directors execute their duties in compliance with relevant laws and regulations and the articles of incorporation

(1)The directors will formulate the Corporate Code of Conduct and the CSR Policy and set an example by their own behavior to establish corporate governance.

(2)The directors will organize board of directors meeting regularly and on an as-needed basis and set up cross-divisional conference bodies such as a Corporate Management Committee, Corporate Officers' Meeting and relevant committees to make decisions on and supervise the issues specified in relevant laws and regulations and the articles of incorporation.

In addition, the CSR committee chaired by the president has been established to deliberate on and determine important matters related to the promotion of CSR activities.

We keep in mind that a company is also a member of society, and define in the CSR promotion rules that our CSR is to review the economic, environmental and social activities of the Group from a global perspective based on the corporate philosophy and to fulfill our social accountability.

(3) Multiple outside directors are appointed to enhance the functions of the board of directors to supervise the execution of business operations and to ensure the transparency of decision-making.

2. System to retain and manage information on the execution of duties by the directors

(1) With respect to information on the execution of their duties, the directors shall retain and manage the minutes of board of directors meeting and other important meetings, as well as records of decision-making, properly in accordance with internal rules and regulations.

And the directors and Audit & Supervisory Board members shall have access to such information at any time.

3. Rules and systems on the management of the risk of loss

(1) To manage the risks associated with our business, the directors have established Risk Management Rules, work to prevent the occurrence of loss by periodically assessing risks that are present under normal circumstances, and monitor the implementation status of response plans. If the risk of loss becomes real, cross-divisional measures will be immediately taken to minimize losses and control the situation at the earliest possible time, also taking countermeasures to prevent any recurrence of the crisis that has been resolved. Furthermore, the Company implemented a disaster recovery policy that clarifies initial activity to be taken by employees in case of major accidents, large-scale earthquakes, and/or other natural disasters. In addition to such quick post-disaster business recovery plan, we will continue to improve the crisis management system.

4. System to ensure that the directors execute their duties in an efficient manner

(1) Based on the resolution, the board of directors will appoint corporate officers to oversee and perform company operations. In addition, the Company specifies the delegation of roles and duties for the corporate officers and employees in the corporate officer delegation of authority rules and division of duties rules respectively.
The board of directors will set corporate targets through the development of medium-term business plans, and improve management efficiency by using a budget system.

(2) Board of directors meeting will be held regularly once a month as well as on an as-needed basis. Active discussions will be also carried out in Corporate Management Committee and Corporate Officers' Meetings involving directors (meetings are held regularly every month), as well as the meetings of relevant committees, in order to promptly understand the situation and respond to changes in the environment.

5. System to ensure that employees conduct business operations in compliance with relevant laws and regulations and the articles of incorporation

(1)The directors will develop a promotion system to enhance compliance with laws, international rules, social norms, relevant internal rules and regulations, etc. (hereinafter referred to as the "Laws, etc."), as well as awareness of ethics, among all employees in the Group, and will strive to disseminate the Corporate Code of Conduct and the CSR Policy through the distribution of guidelines, internal training and other means.

(2)The directors will monitor and give guidance on the preventive activities and the remedial measures in case of violations through the compliance committee chaired by the representative director to ensure that business operations are promoted properly in accordance with the CSR policy.

In case that any violation of the Laws, etc., is detected, measures will be taken for correction and prevention of recurrence, and disciplinary actions will be taken in accordance with the relevant internal rules and regulations.

(3) The directors will establish a corporate ethics helpline as an internal reporting system with internal and external contacts, which receives information on any act that violates or may violate the Laws, etc., as well as information on any risk, threat and concern to the reporting officers & employees, to identify such acts, etc., quickly, prevent scandals and/or ensure the transparency of business operations. The users of the helpline will not be treated unfairly on the grounds of the reporting or consultation.

6. System to ensure the appropriateness of business operations of the corporate group consisting of the Company and its subsidiaries

(1)The directors will specify the policy and organization to manage Group companies in internal rules and regulations, and instruct and manage them so that all Group companies are operated in a proper and smooth manner based on the policy of the Company and relevant laws, while striving to develop and operate related systems in an integrated way. The rules also specify that the officers in charge shall report any important matter concerning Group companies to the board of directors.

(2)The directors will work to establish a system for efficient collaboration with subsidiaries through the promotion of information and personnel exchange, such as the organization of relevant conference bodies and committees composed of members of the Group.

In addition, the Company will dispatch personnel to subsidiaries as their Audit & Supervisory Board members and perform internal audit by the Internal Auditing Office to remediate issues as the need arises.

The corporate ethics helpline shall be available to the officers and employees of subsidiaries as well.

7. Matters related to ensuring the practicability of instruction to employees when Audit & Supervisory Board members request appointment of the employees to support their duties

(1)Based on the request of Audit & Supervisory Board members, the directors will appoint dedicated employees to support the duties of the Audit & Supervisory Board members.

(2)The directors will secure the independence of the command and control of the employees specified in the preceding paragraph from directors, corporate officers and employees, and gain the consent of the Audit & Supervisory Board members prior to any transfer, assessment, etc., of the employees.

8. System for the directors, employees, etc., of the Company and its subsidiaries to report to Audit & Supervisory Board members

(1)The directors, corporate officers and employees will give Audit & Supervisory Board members access to records of decision-making for inspection, and appropriately report the status of business operations and assets, as well as issues required by Audit & Supervisory Board members to report. The directors, Audit & Supervisory Board members, corporate officers and employees of subsidiaries, along with those who have received a report from them, shall similarly report as required by the Audit & Supervisory Board members in a proper manner. In addition, the board of directors and relevant committees will disclose important matters and make decisions on them in the meetings attended by Audit & Supervisory Board members, and explain the operation situation of the committees when necessary.

(2)No person will be treated unfairly on the grounds of reporting to Audit & Supervisory Board members.

9. Other systems to ensure that Audit & Supervisory Board members can conduct audits in an effective manner

(1)The directors recognize the importance and usefulness of audits conducted by Audit Supervisory Board members and will ensure opportunities for Audit & Supervisory Board members to exchange information with directors, the Internal Auditing Office and independent auditors.

(2)The cost needed for Audit & Supervisory Board members to fulfill their duties will be borne by the company upon request of the Audit & Supervisory Board members.

2. Basic Views on Eliminating Anti-Social Forces

The Company responds firmly to anti-social forces and organizations that threaten the order and safety of civil society. The Company works to remain in close cooperation with the police and other outside specialized organizations, seeks guidance regarding responses to anti-social forces, and has established mechanisms for eliminating anti-social forces such as distributing within the company collections of examples of responses to anti-social forces.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

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2. Other Matters Concerning to Corporate Governance System Updated

To manage the risks associated with our business, the directors have established Risk Management Rules, work to prevent the occurrence of loss by periodically assessing risks that are present under normal circumstances, and monitor the implementation status of response plans. In the case where a risk occurs, a companywide organization is established and systems are created to resolve the situation. In principle, internal information is disclosed promptly after the occurrence of a risk. A representative director makes a determination concerning the timing and method of disclosure and disclosure is performed by a representative director or the officer responsible for general affairs appointed by the representative director in charge of general affairs. In cases where other officers or employees make announcements, they are entrusted to do so in advance by the representative director and the officer responsible for general affairs.

[Reference: System Diagram of Corporate Governance]

